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ECONOMIC FORECASTING CENTER

MONTHLY PROJECTIONS
February 1989

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For Release: March 29, 1989

WHAT IS THE CASE FOR STAGFLATION?

As expected, robust economic indicators in January gave way to exceptionally sluggish indicators during February. However, with the exception of a surge in farm income, which caused personal income to soar above forecasted values for the first quarter, most indicators were close to February projections consistent with first-quarter estimates. The exceptions are auto sales, which are struggling to reach 10 million units at the present time, and construction, which is still growing faster than originally anticipated even after winter returned. Indeed, the 11.4% dip in housing starts still did not bring starts to a level that was below the 1988 averages. Sluggish manufacturing orders are only weak in comparison to the December levels, which soared dramatically. In February, shipments of nondefense capital goods trailed orders by more than $3.5 billion. Obviously, no near-term collapse in capital spending should be anticipated.

One area of concern is the significant acceleration of business inventories. After more than a year of modest inventory accumulations, manufacturers are rapidly adding to their inventories early in the new year. Some of this reflects goods in process and will be converted to shipments of capital goods later in the spring. However, some inventories may now be accumulated in anticipation of higher price increases. If such speculative inventories are building, this would be an early sign of a pending economic contraction.

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Unfortunately, February's sluggishness did not restrain price increases. A statistical fluke led to a 1% surge in the PPI for finished goods. An unusually small sample of geographic areas provided prices for fruits and vegetables. These prices should reverse next month. Unfortunately, a slight drought fear is again developing in the Midwest as a result of difficulties with the winter wheat crop. While only hard winter wheat is in jeopardy, these drought concerns could lead to significant increases in commodity prices. Indeed, food prices probably will rebound aside from the fruit and vegetable area in March.

More significantly, the increase in inflation at the commodity level is beginning to entice higher prices at the retail level. There is no simple relationship between commodity prices and inflation as measured by the Consumer Price Index. The Producer Price Index does not include imported goods while the CPI does. With the dollar strengthening during the past year, imported goods excluding oil are acting as a restraint upon inflationary pressures.

Also, some consumer resistence to higher prices, especially in clothing and some processed foods, has led to a narrowing of some profit margins. However, our samples show that supermarket margins in general have widened since the first of this year. Of greater interest are the lags between changes in commodity prices and changes in their finished goods components. For example, the February CPI continues to evaluate petroleum product as if oil were $15 per barrel. The Producer Price Index is evaluating oil products with oil priced $17.50 per barrel. In fact, low oil inventories have led to a scurry for increased oil as non-OPEC producers restrain their production. As a result, oil currently is being traded at more than $20 per barrel. These especially high oil prices are expected to settle back to only slightly more than $19 per barrel in the United States for the remainder of this year. Nevertheless, oil product prices have not increased at the retail level because consumer demand has been seasonally weak. When the driving season emerges, beginning at Easter, gasoline prices should rise significantly. Indeed, prices will rise between now and the Fourth of July by nearly 15¢ per gallon.

Thus, lags from commodity prices to finished goods prices depend upon seasonal demand characteristics, the degree of processing and handling that is required, and the amount of competitive pressures that prevail at the retail level.

Some analysts have maintained that price warfare, as evidenced by the Sears strategy to reduce prices on their products, is responsible for the absence of retail price pressures. Such an analysis misinterprets what Sears is trying to do. By lowering their everyday prices, they are trying to reduce the need for deep inventory-adjustment sales. Previously, the higher Sears prices caused people who needed a hammer or a screwdriver to go to Walmart. They would only show up at Sears during sales days. With everyday low prices, Sears hopes to recapture some of those customers. However, fewer sales and less discounting during the sales will materialize. Otherwise, Sears would give away too much of its returns to consumers rather than to shareholders, which is not the intent.

Moreover, the Consumer Price Index is 52% services. Service inflation notoriously lags commodity inflation and is transmitted through higher wage costs. As inflationary perceptions rise, wage pressures will intensify and this will accelerate the service deflator. However, by the time commodity inflation has been arrested by Federal Reserve restraints, higher wage pressures and rising service inflation will continue to generate accelerating consumer price indices.

As a result of this delayed response, especially in the service sector, some economists have claimed that a new era of stagflation is surfacing. This could be the case, especially if the administration decides that maintaining growth is more important than restraining inflation. Of course, such an assumption would require that the administration gradually tolerate higher and higher inflation rates. At least one economist maintained that slow growth and somewhat higher inflation could persist indefinitely. However, stagflation usually occurs as a result of raising the tolerance level for inflation in order to preserve growth. Of course, the ultimate result of such a policy is to lead to dramatically higher interest rates, reduced United States competitiveness in the world and an ultimate credit crunch to eventually eliminate the inflationary risk anyway. During the period of stagflation, manufacturers discover that profit objectives can be reached by raising prices. (This is partially true because accelerating inflation leads to inventory profits.) Sometimes, diligent costcutting is reduced as these profit margin gains are captured. Therefore, productivity deteriorates during such a stagflation period as well.

Whether a new bout of stagflation is about to occur depends upon the White House. Will they, in fact, support the Federal Reserve in trying to restrain inflation before it passes through to wage gains and ultimately to the service components, or will they try to preserve their real growth targets irrespective of the inflationary risk? The latter policy will lead to stagflation and a lot of other serious problems further down the road.

Quarterly Profile of GNP

	1988-4	1989-1	1989-2	1989-3	1989-4	1990-1	1988 Annual	1989 Annual
Real:	2.4	5.1	2.1	2.6	2.4	1.0	3.9	3.1
Price:	5.3	4.6	4.7	4.5	4.7	5.5	3.5	4.8
Nominal:	7.8	9.8	6.9	7.2	7.2	6.7	7.5	8.0

Monthly Statistical Highlights

	February 1989	March 1989	April 1989
Payroll Employment		+221,000	+206,000
Index of Hours Worked		+0.2%	+0.2%
Household Employment		+264,000	+214,000
Civilian Unemployment Rate		5.2%	5.2%
Personal Income		-0.1%	+0.6%
Savings Rate		5.3%	5.4%
Personal Consumption		+0.4%	+0.5%
Retail Sales		+0.4%	+1.5%
Auto Sales		9.8*	10.3*
Housing Starts		-1.5%	-4.1%
Housing Permits		+0.5%	-3.3%
Construction Expenditures	-1.5%	-0.6%	-2.0%
Business Inventories	+0.7%	+0.6%	+0.7%
Orders for Durable Goods		+2.4%	-1.7%
Orders for Nondefense Capital Goods		+6.7%	-3.7%
Industrial Production		+0.4%	+0.4%
CPI		+0.5%	+0.5%
PPI		+0.4%	+0.4%
Consumption Deflator		+0.4%	+0.4%
Leading Indicators	-0.3%	+0.2%	-1.6%
Currency Index		+1.8%	+1.7%
Equity Index		-2.9%	-0.1%
Real GNP (annual rate)	UNC	+2.7%	+1.8%
M1 (annual rate)		+2.9%	+2.9%
M2 (annual rate)		+3.8%	+4.9%

* auto sales in millions

Commentary

Employment - February's dip in the unemployment rate was concentrated in teenagers and young adults. Excluding that group, the unemployment rate showed little change. This suggests that statistical factors probably led to the decline in unemployment and some increases should be anticipated in the next few months. A decline in the index of hours worked was in the range anticipated a month ago as the workweek remained unchanged and employment grew. Employment gains of 60,000 in the government sector probably will not be repeated next month, but some rebound in manufacturing should be expected from sluggish February rates. The hourly earnings index increased only marginally, but the wage component of personal income showed sharp gains, suggesting that com-

position shifts rather than any wage restraint may have been responsible for the favorable hourly earnings report.

Increases in initial unemployment claims early in March suggest that economic activity remains sluggish. However, the insured unemployment rate remains unchanged, indicating that no significant long-term unemployment problems are yet developing.

Personal Income and Outlays - Personal income grew exceptionally strong in January and February as a result of a sharp rebound in farm income from $15 billion in December to $62 billion by February. On balance, farm income should average about $50 billion per month during the year. Thus, some retrenchment from the February farm numbers is anticipated. In addition, interest income is beginning to grow rapidly, increasing about 1.5% per month. As long as interest rates continue rising, rapid gains are expected in the interest component. Because of the growth in interest and temporary farm income, the surge in savings is not surprising and should not be viewed as a dramatic shift in consumer behavior. However, the consumer probably is seeking higher savings during these uncertain times.

All of the consumption growth in February was in the services sector, where a return to more normal weather led to a surge in utility purchases. There were also significant composition shifts in the services sector in February which led to minimal growth in the services deflator. These composition shifts will hold down the GNP deflator during the first quarter. Aside from the surge in services, other spending was weak. However, price increases should significantly accelerate nominal spending on nondurables in the next few months. The weakness in automobiles is harder to explain. Auto incentives have now been reinstituted and should accelerate sales late in March and in April.

Construction - Because of the mild weather, construction will be stronger during the first quarter than originally anticipated. Indeed, construction will actually contribute to GNP growth during the quarter. Weakness should develop as the spring develops, however. Little growth from current levels is expected in nonresidential expenditures. Exceptionally large increases in hotel and motel projects and commercial building during January probably will not be repeated. Housing probably will dip sharply. Although starts did not fall as much as anticipated, permits fell more than expected. Much of the permit weakness was in single-family units, which may not average more than 1 million during the year. With multi-families averaging slightly over 400,000, this suggests that housing starts will probably reach only 1.41 million for the year. This dip in housing will significantly slow construction spending programs during the summer months.

Construction materials continued to show minimal inflationary pressures as a result of apparent sluggishness in the sector. Also, labor costs remain well behaved. Some acceleration in labor costs are expected later in the year. Nevertheless, construction will probably be a restraining factor upon inflationary pressures in 1989 and prevent the GNP deflator from growing at the same rates as the consumer and producer price indices.

Business Activity - In their haste to announce sluggishness in the durable goods reports, which showed the first back-to-back declines in more than two years, many analysts failed to recognize that durable activity was at exceptionally high levels in December. Indeed, the slip in orders in February still places orders above anticipations of two months ago. Moreover, orders for nondefense capital goods are especially robust. In addition, commercial aircraft orders by American Airlines were not included in the monthly report. Therefore, a spurt in orders for nondefense capital goods could be expected next month. Orders for defense goods are near shipments at the present time and probably will show little movement in the next few months.

Some of the weakness in orders was the result of exceptionally strong backlogs developing in areas such as primary metals and transportation equipment. Because of delivery delays, orders are slowing. Once these delays diminish, orders will surge again.

Weakness in industrial production was slightly greater than anticipated as a result of a surprising 0.4% decline in production of industrial materials. Auto assemblies continued at 7.2 million, which is consistent with current projections of domestic auto sales for the year. Weakness in industrial materials is especially surprising as inventories have been increasing rapidly and as material prices have also been advancing. A reversal of this sluggish production in the materials sector is anticipated next month.

Prices - Auto incentives currently are restraining inflationary pressures at the consumer level. When those incentives are fully in place, some acceleration of consumer prices should be anticipated. CPI estimates for the year have been raised to 5.5% as measured on a December-to-December basis. PPI projections are approaching 6.0%. These are 1 and 2 percentage points respectively greater than their performance last year. Part of the acceleration is higher oil prices than originally anticipated. Not anticipating production reductions by non-OPEC producers, oil prices had been expected to fall in the spring. Unfortunately, that assumption proved to be in error. Oil prices now will probably average $4 more than originally projected.

Miscellaneous - Higher oil prices are going to restrain improvements in the merchandise trade balances over the next several months. Initially, foreign exchange traders will concentrate more upon interest rates than upon failure to improve trade balances. However, before the end of spring, the dollar is expected to come under renewed downward pressure. Nevertheless, high interest rates in the United States probably will prevent any dramatic selloff in the dollar this year.

Adjusted profits led to higher estimates of profits early in 1989 than originally anticipated. However, the rise in interest payments will prevent profits from rising during the year. In addition, a spurt in the inventory valuation adjustment will raise the tax liability of the corporate sector. Higher interest rates and a reduction in adjusted profits should lead to a significant decline in stock market values. A decline of 15% from current levels is anticipated before a stock market bottom is reached near the end of this year. This could lead the Dow Jones to fall to as low as 1900.

Financial Markets

Household savings grew sharply as farm income and interest income expanded. However, this increase in household savings has had little impact upon interest rate presures. As the houehold is not expected to significantly improve savings capabilities over the next year, this suggests that no further positive contribution upon credit market pressures will come from the household sector. Of course, higher interest rates will reduce housing demand. Therefore, net household use of funds may decline slightly, releasing some funds later in the year. At the present time, it appears that the household sector will have a marginal restraining effect upon interest rates for the remainder of this year after its significant shift in savings behavior has had little impact upon restraining interest rates early in the year.

The government sector probably already has reached its low point on deficits for the year. Government borrowing should intensify in the spring and early summer months. This, in turn, should exert upward pressures upon interest rates. In addition, the federal savings and loan bailout will replace short-term liabilities with long-term liabilities. This should lead to higher long-term interest rates. Thus, the yield curve will become less inverted, but partially because long-term interest rates will be under upward pressures.

As corporations build inventories and increase capital spending, their uses of funds will intensify. Apparently, their inventory rebuilding during the first quarter was more than enough to absorb household savings activity. Further strong corporate borrowings are anticipated as profitability gradually wanes during the spring and summer months. This would suggest that interest rates will continue to rise through the summer. Then, corporate activity may gradually become restrained, eventually leading to declining interest rates by year's end.

Of course, the foreign investor will be a dominant player in interest rate movements. At this time, foreign capital is moving into the United States as interest rates are rising here and economic activity appears robust. If a recession looms, however, foreign investors probably would try to withdraw funds. This could preserve high interest rates into 1990.

Equity Markets - As mentioned above, adjusted profitability should quickly erode as inventory profits raise tax liabilities and interest burdens reduce the favorable cash flow of corporations. This should be apparent by the second quarter. In addition, rising interest rates will lower the value of any earnings potential. For these reasons, the stock market probably will be heading downward very shortly. A decline of 15% currently is anticipated.

Although some purchases of defensive stocks, such as consumer-oriented issues, could prove valuable, it probably is too early to purchase interest-sensitive issues. For that reason, some liquidation in equity positions would be recommended at the present time.

EMPLOYMENT

	Payroll Employment		Index of Hours Worked		Household Civilian Employment		Civilian Unemployment Rate		Hourly Earnings	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1988	106973	106973	127.1	127.1	115573	115573	5.3	5.3	9.43	9.43
November	107377	107419	127.0	127.1	115947	115947	5.4	5.4	9.42	9.42
December	107656	107641	127.1	127.2	116009	116009	5.3	5.3	9.44	9.45
January 1989	108026	108056	127.6	128.3	116435	116711	5.3	5.4	9.50	9.50
February	108277	108345	128.0	127.9	116700	116853	5.2	5.1	9.55	9.51
March	108526	108566*	128.4	128.1*	116965	117117*	5.2	5.2*	9.60	9.56*
April	108753	108772	128.7	128.4	117168	117331	5.1	5.2	9.63	9.60
May	108960	108994	129.0	128.6	117381	117583	5.0	5.1	9.66	9.64
June	109165	109216	129.2	128.8	117592	117827	5.0	5.1	9.68	9.68
July	109328	109427	129.4	129.0	117746	118051	5.0	5.0	9.72	9.71
August	109555	109633	129.7	129.3	117980	118277	5.0	5.0	9.77	9.75
September	109784	109821	129.9	129.5	118221	118495	4.9	5.0	9.81	9.79
October	109938	110052	130.0	129.7	118403	118733	4.9	4.9	9.85	9.84
November	110037	110228	130.2	129.9	118559	118922	4.9	4.9	9.90	9.88
December	110235	110423	130.3	130.1	118716	119077	4.9	5.0	9.95	9.93
January 1990	110423	110586	130.6	130.3	118914	119253	4.8	5.0	9.99	9.97
February	110617	110694	130.8	130.4	119151	119391	4.8	5.1	10.04	10.02
March	110809	110729	131.1	130.4	119362	119440	4.9	5.2	10.09	10.07

PERSONAL INCOME

	Personal Income		Wage & Salary		Personal Savings		Disposable Income		Personal Outlays	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1988	4.184	4.178	2.512	2.508	182.9	174.0	3.587	3.583	3.404	3.409
November	4.175	4.170	2.520	2.516	153.3	150.1	3.577	3.573	3.423	3.423
December	4.196	4.201	2.522	2.530	157.6	150.4	3.598	3.600	3.440	3.449
January 1989	4.223	4.273	2.543	2.550	167.9	198.3	3.620	3.660	3.452	3.462
February	4.272	4.315	2.571	2.573	189.6	219.6	3.664	3.700	3.474	3.480
March	4.320	4.309*	2.599	2.593*	206.3	196.3*	3.702	3.692*	3.496	3.496*
April	4.343	4.336	2.608	2.611	200.6	201.4	3.719	3.716	3.518	3.515
May	4.366	4.362	2.617	2.628	196.7	203.6	3.734	3.739	3.537	3.535
June	4.389	4.388	2.626	2.644	197.3	205.9	3.750	3.761	3.553	3.555
July	4.412	4.410	2.645	2.658	197.1	214.0	3.773	3.778	3.576	3.564
August	4.434	4.437	2.665	2.677	199.8	207.8	3.797	3.801	3.597	3.593
September	4.456	4.459	2.686	2.692	201.8	205.3	3.820	3.818	3.618	3.613
October	4.479	4.485	2.699	2.711	195.3	210.8	3.835	3.840	3.640	3.629
November	4.501	4.508	2.712	2.728	192.7	199.4	3.852	3.859	3.659	3.660
December	4.523	4.532	2.725	2.747	191.1	198.1	3.868	3.879	3.677	3.681
January 1990	4.552	4.550	2.744	2.764	194.2	191.1	3.895	3.893	3.701	3.702
February	4.582	4.577	2.764	2.781	202.5	203.7	3.926	3.917	3.724	3.713
March	4.613	4.602	2.785	2.797	209.4	196.7	3.953	3.938	3.744	3.741

Fore. = February Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

CONSUMPTION

	Personal Consumption		Durables		Nondurables		Services		Consumption Real	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1988	3302.9	3307.0	452.0	453.3	1071.3	1071.3	1778.8	1782.4	2613.6	2616.9
November	3321.6	3320.3	453.6	458.7	1077.4	1080.9	1782.6	1780.7	2617.9	2623.5
December	3335.8	3346.0	472.1	480.2	1076.9	1069.4	1795.5	1796.4	2635.4	2634.6
January 1989	3349.1	3357.9	460.7	461.1	1080.5	1088.1	1807.6	1808.6	2628.8	2627.2
February	3371.0	3375.7	463.5	459.7	1085.6	1089.0*	1821.9	1827.0*	2637.7	2636.6
March	3391.9	3390.8*	466.5	463.2*	1090.8	1093.9	1834.6	1833.7	2643.7	2638.9*
April	3414.1	3409.1	470.2	469.5	1097.4	1100.1	1846.5	1839.5	2646.6	2642.1
May	3432.5	3429.3	472.4	470.8	1101.3	1112.3	1858.5	1846.2	2648.5	2648.4
June	3447.4	3448.4	471.6	471.9	1105.5	1119.6	1870.3	1856.9	2647.8	2652.1
July	3470.1	3456.6	474.3	465.8	1113.4	1122.5	1882.4	1868.3	2655.0	2645.6
August	3490.9	3485.1	476.8	475.6	1118.6	1129.1	1895.5	1880.4	2662.8	2658.2
September	3511.4	3503.9	479.3	476.7	1123.9	1134.7	1908.2	1892.5	2670.3	2663.3
October	3532.3	3519.7	481.5	475.6	1130.1	1138.8	1920.7	1905.3	2671.9	2664.9
November	3551.1	3549.4	483.3	485.7	1134.0	1145.9	1933.8	1917.8	2672.0	2676.1
December	3567.9	3569.9	483.3	488.9	1138.0	1151.1	1946.6	1929.9	2672.6	2678.7
January 1990	3591.6	3590.1	486.5	491.4	1146.2	1157.1	1958.9	1941.6	2680.3	2681.8
February	3614.0	3600.8	489.4	485.0	1151.9	1161.3	1972.7	1954.5	2687.0	2676.9
March	3633.8	3628.2	490.2	492.0	1157.5	1168.8	1986.3	1967.4	2691.7	2687.3

RETAIL SALES

	Retail Sales		Non-Auto Durables		Auto (Million Units)		Nondurable Sales		Auto Sales	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1988	136.56	136.56	20.90	20.90	9.8	9.9	85.36	85.36	30.30	30.30
November	137.81	137.87	21.10	21.10	10.2	10.2	85.80	85.80	30.91	30.91
December	138.03	137.86	21.51	21.79	11.7	11.6	85.70	85.24	30.82	30.83
January 1989	138.04	138.85	21.27	22.15	9.9	9.8	86.04	86.41	30.73	30.30
February	138.77	138.23	21.16	21.97	10.3	9.9	86.45	86.48	31.16	29.79
March	139.52	138.73*	21.13	22.14*	10.7	9.8*	86.86	86.83*	31.53	29.76*
April	140.47	140.86	21.58	22.26	10.6	10.3	87.39	87.32	31.50	31.28
May	141.03	141.57	21.57	22.15	10.7	10.4	87.70	87.89	31.76	31.53
June	141.27	142.27	21.65	22.49	10.6	10.3	88.03	88.46	31.59	31.32
July	141.50	142.21	21.88	22.67	10.2	10.1	88.66	88.69	30.96	30.85
August	142.90	143.44	22.24	22.74	10.5	10.5	89.08	89.21	31.58	31.49
September	143.60	144.02	21.99	22.70	10.8	10.7	89.50	89.66	32.11	31.66
October	144.34	143.76	22.38	22.85	10.1	9.8	89.99	89.98	31.97	30.93
November	144.86	145.46	22.23	23.06	10.3	10.2	90.30	90.54	32.33	31.86
December	145.18	146.23	21.80	22.99	10.6	10.4	90.62	90.95	32.76	32.29
January 1990	146.19	147.00	22.33	23.11	10.5	10.5	91.27	91.43	32.59	32.46
February	146.97	146.60	22.56	23.10	10.6	10.2	91.73	91.76	32.68	31.74
March	147.49	147.98	22.70	22.95	10.5	10.5	92.17	92.35	32.62	32.68

Fore. = February Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

CONSTRUCTION

	Housing Starts		Single Family Starts		Housing Permits		Construction Expenditures (Current)		Construction Expenditures (Real)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1988	1.542	1.532	1.112	1.136	1.516	1.516	407.8	408.2	349.8	350.1
November	1.563	1.567	1.151	1.138	1.517	1.516	411.1	413.6	352.6	354.7
December	1.506	1.577	1.121	1.141	1.502	1.566	408.2	422.3	349.2	361.4
January 1989	1.490	1.690	1.095	1.202	1.473	1.507	410.3	424.0	350.4	363.8
February	1.443	1.498	1.063	1.045	1.416	1.404	409.8	417.5*	349.7	357.4*
March	1.405	1.476*	1.032	1.026*	1.372	1.411*	409.4	414.9	348.7	354.9
April	1.457	1.416	1.056	1.003	1.375	1.365	409.3	406.8	348.0	347.4
May	1.490	1.384	1.084	0.976	1.413	1.328	409.5	404.2	347.3	344.6
June	1.466	1.380	1.055	0.971	1.392	1.336	409.3	401.2	346.6	341.2
July	1.438	1.389	1.037	0.978	1.375	1.321	411.9	401.5	347.9	340.8
August	1.414	1.366	1.025	0.955	1.356	1.296	413.2	402.3	347.8	340.9
September	1.423	1.387	1.011	0.972	1.364	1.299	414.4	405.1	347.7	342.4
October	1.425	1.402	1.020	0.983	1.343	1.315	414.3	407.1	346.7	343.5
November	1.413	1.392	1.012	0.991	1.327	1.311	414.6	409.3	346.1	344.5
December	1.414	1.400	1.018	1.003	1.330	1.318	414.5	411.4	344.8	345.4
January 1990	1.369	1.426	0.984	1.005	1.306	1.321	414.9	414.5	344.0	347.2
February	1.358	1.430	0.976	1.009	1.298	1.316	416.1	417.0	343.9	348.1
March	1.345	1.425	0.968	1.013	1.299	1.315	417.4	418.7	343.5	348.3

	Non-Residential		Public Construction		Residential Construction	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1988	130.9	130.7	77.9	77.9	199.0	199.6
November	129.7	131.5	80.9	80.3	200.4	201.8
December	128.4	134.1	79.5	85.9	200.3	202.3
January 1989	128.8	137.7	81.0	81.7	200.5	204.6
February	128.4	133.6*	80.6	80.8*	200.8	203.1*
March	127.8	133.5	81.5	81.3	200.1	200.1
April	128.3	134.0	81.7	81.6	199.3	191.2
May	128.8	133.7	82.0	82.4	198.7	188.1
June	129.2	133.3	82.0	82.1	198.1	185.8
July	129.5	133.1	82.5	82.5	199.9	185.9
August	129.8	132.5	82.6	82.9	200.8	186.9
September	130.1	132.7	82.8	83.3	201.5	189.1
October	130.4	133.1	83.0	83.5	200.9	190.5
November	130.6	133.0	83.2	83.6	200.8	192.7
December	130.9	133.4	82.8	83.3	200.8	194.7
January 1990	131.5	133.4	83.5	84.2	199.9	196.9
February	132.3	133.7	84.2	84.5	199.6	198.8
March	133.1	133.9	84.9	85.1	199.4	199.7

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BUSINESS ACTIVITY

	Manufacturers' Inventories		Durable Goods Orders		Non-Defense Capital Goods Orders		Non-Defense Capital Shipments	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1988	349.4	349.4	122.79	122.79	34.62	34.62	32.69	32.60
November	350.9	351.6	122.77	123.04	35.67	35.83	32.43	32.51
December	352.4	354.2	121.85	132.15	34.23	39.43	32.47	32.68
January 1989	354.3	357.3	123.74	128.28	34.93	40.31	32.96	33.31
February	356.8	360.5*	122.19	123.68	33.67	36.73	33.02	33.16
March	359.2	363.4	122.85	126.65*	33.84	39.19*	33.10	33.46*
April	361.5	366.1	123.75	124.48	34.26	37.74	33.43	33.69
May	363.6	368.5	123.14	124.16	34.05	37.05	33.88	34.03
June	365.8	370.3	123.67	122.91	34.35	35.63	34.25	34.09
July	367.9	372.5	124.51	123.37	34.97	35.54	34.56	34.65
August	369.5	374.9	125.89	124.72	35.37	36.19	34.65	34.88
September	372.3	376.3	125.11	124.56	35.11	36.28	34.47	35.21
October	374.6	378.4	124.48	123.28	34.96	35.84	34.69	35.56
November	376.8	380.1	125.93	125.16	35.22	36.26	34.83	35.92
December	378.9	382.4	126.21	124.86	35.29	36.04	34.98	36.16
January 1990	381.1	384.3	127.72	124.43	35.56	35.73	35.15	36.24
February	382.4	386.5	127.85	124.21	36.42	35.65	35.70	36.15
March	383.7	388.7	127.56	124.16	36.40	35.49	36.28	36.09

	Business Inventories		Defense Shipments		Industrial Production		Capacity Utilization	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1988	751.4	750.6	8.43	8.43	139.3	139.4	84.0	84.0
November	754.4	753.7	8.55	8.66	139.9	139.9	84.2	84.1
December	755.0	760.6	8.63	10.10	140.2	140.5	84.1	84.3
January 1989	760.6	766.2	8.54	8.69	140.8	141.1	84.3	84.5
February	766.5	771.4*	8.51	8.22	141.2	141.1	84.4	84.3
March	772.3	776.3	8.43	8.43*	141.6	141.6*	84.5	84.5*
April	775.7	781.9	8.50	8.37	142.3	142.1	84.8	84.6
May	779.6	786.9	8.55	8.44	142.7	142.5	84.9	84.7
June	783.4	790.6	8.56	8.56	143.2	143.0	85.1	84.8
July	788.1	795.1	8.53	8.52	143.4	143.4	85.0	84.8
August	792.0	800.4	8.55	8.93	143.2	143.9	84.7	85.0
September	795.8	805.6	8.56	9.14	143.5	144.3	84.7	85.1
October	801.1	810.3	8.59	8.72	143.7	144.7	84.6	85.1
November	806.6	815.9	8.61	8.59	143.8	145.0	84.5	85.1
December	812.1	820.4	8.63	8.67	143.9	145.2	84.4	85.0
January 1990	815.3	824.3	8.60	8.69	144.1	145.4	84.3	85.0
February	818.2	828.8	8.65	8.58	144.3	145.3	84.2	84.7
March	821.1	832.4	8.73	8.68	144.6	145.1	84.2	84.3

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PRICES

	CPI-U (seasonally adjusted)		PPI Finished Goods (seasonally adjusted)		PPI-Industrial Commodities (unadjusted)		Estimated GNP Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1988	119.9	119.9	109.5	109.5	107.1	107.1	123.4	123.5
November	120.3	120.3	109.8	109.8	107.4	107.4	123.8	124.0
December	120.8	120.7	110.3	110.2	108.1	108.1	124.2	124.4
January 1989	121.2	121.3	110.8	111.3	108.7	109.1	124.5	124.8
February	121.5	121.8	111.1	112.4	109.0	109.6	124.8	125.2
March	121.8	122.4*	111.4	112.8*	109.1	110.1*	125.1	125.7
April	122.4	122.9	111.8	113.3	109.7	110.8	125.6	126.2
May	122.9	123.4	112.1	113.7	110.2	111.3	126.1	126.6
June	123.3	123.9	112.4	114.1	110.6	111.8	126.5	127.1
July	124.0	124.6	112.8	114.6	111.3	112.5	127.0	127.6
August	124.7	125.1	113.3	115.0	111.8	113.0	127.4	128.0
September	125.4	125.6	113.9	115.5	110.5	111.7	127.8	128.4
October	125.9	126.1	114.4	116.0	111.8	113.3	128.4	128.8
November	126.3	126.6	114.8	116.4	112.1	113.7	128.9	129.3
December	126.7	127.3	115.1	116.9	112.4	114.1	129.5	129.9
January 1990	127.3	127.9	115.6	117.4	113.0	114.7	129.9	130.5
February	127.9	128.5	116.3	117.8	113.6	115.4	130.3	131.1
March	128.5	129.0	117.0	118.2	114.1	116.0	130.7	131.6

	Consumption Deflator		Consumer Durables		Consumer Nondurables		Consumer Services		Implicit Construction Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1988	126.4	126.4	111.0	111.1	118.4	118.4	136.8	136.8	116.6	116.6
November	126.6	126.6	111.1	111.1	118.2	118.2	137.3	137.3	116.6	116.6
December	126.9	127.0	111.8	112.0	118.4	118.4	137.8	137.9	116.9	116.9
January 1989	127.4	127.8	112.0	111.8	118.6	119.2	138.4	138.9	117.1	116.6
February	127.8	128.0	112.3	111.7	118.7	119.5	138.9	139.1	117.2	116.8*
March	128.3	128.5*	112.6	111.9*	119.4	119.9*	139.3	139.7*	117.4	116.9
April	129.0	129.0	112.9	112.3	120.2	120.5	140.0	140.3	117.6	117.1
May	129.6	129.5	113.1	112.6	120.9	120.9	140.8	140.9	117.9	117.3
June	130.2	130.0	113.3	113.0	121.5	121.4	141.5	141.5	118.1	117.6
July	130.7	130.7	113.7	113.3	121.8	121.8	142.1	142.3	118.4	117.8
August	131.1	131.1	114.1	113.7	122.0	122.2	142.7	142.9	118.8	118.0
September	131.5	131.6	114.5	114.0	122.3	122.5	143.3	143.5	119.2	118.3
October	132.2	132.1	114.8	114.3	123.0	122.9	144.0	144.1	119.5	118.5
November	132.9	132.6	115.1	114.6	123.8	123.5	144.7	144.8	119.8	118.8
December	133.5	133.3	115.4	114.9	124.6	124.2	145.4	145.5	120.2	119.1
January 1990	134.0	133.9	115.7	115.2	124.9	124.8	146.0	146.2	120.6	119.4
February	134.5	134.5	116.0	115.6	125.1	125.3	146.7	146.9	121.0	119.8
March	135.0	135.0	116.3	115.9	125.4	125.7	147.4	147.6	121.5	120.2

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MISCELLANEOUS

	Merchandise Trade Balance		Leading Indicators	Estimated GNP		Estimated GNP (1982 $)		IVA (annual rate)	
	Fore.	C.E.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1988	-8.88	-8.88	143.9	4963	4970	4022	4024	-24.4	-20.6
November	-10.18	-10.38	143.9	4984	5001	4026	4033	-20.7	-18.7
December	-9.96	-10.92	144.9	5023	5033	4044	4046	-20.6	-18.3
January 1989	-10.26	-9.49*	145.7	5066	5092	4069	4080	-20.1	-20.5
February	-10.72	-10.19	145.2*	5085	5108	4075	4080	-21.4	-24.6
March	-10.35	-10.36	145.5	5120	5140	4093	4089	-22.7	-27.3
April	-10.11	-9.48	143.2	5153	5168	4103	4095	-21.9	-30.5
May	-10.01	-9.76	142.6	5186	5193	4113	4107	-21.5	-28.6
June	-9.86	-9.89	144.2	5219	5230	4126	4115	-21.3	-27.2
July	-9.95	-9.53	143.7	5237	5264	4124	4125	-25.9	-25.3
August	-9.81	-9.26	144.1	5258	5289	4127	4132	-28.3	-23.8
September	-9.65	-10.13	144.5	5279	5316	4131	4140	-31.0	-24.9
October	-9.55	-10.05	144.1	5305	5350	4132	4154	-27.6	-26.2
November	-9.94	-9.73	142.8	5334	5375	4138	4157	-25.3	-25.3
December	-10.28	-9.52	140.9	5362	5403	4141	4159	-23.1	-21.8
January 1990	-9.79	-9.26	140.7	5390	5439	4149	4168	-29.6	-24.4
February	-9.71	-8.95	140.9	5417	5462	4157	4166	-31.3	-26.7
March	-9.64	-8.99	141.2	5445	5484	4166	4167	-33.0	-26.1

	Currency Index		Adjusted Profits		30-Year Government Bonds		New York Composite	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1988	95.10	95.10	185.4	190.5	8.89	8.89	156 36	156.36
November	91.91	91.91	186.9	189.6	9.02	9.02	152.67	152.67
December	92.65	91.88	177.3	202.8	9.01	9.01	155.34	155.35
January 1989	95.43	95.12	182.2	211.3	8.92	8.93	158.53	160.40
February	97.22	95.53	181.1	207.6	9.03	9.01	161.46	165.08
March	96.25	97.23*	179.9	204.3	9.04	9.23	161.06	160.32*
April	94.43	98.84	178.5	205.7	8.86	9.30	163.49	160.20
May	93.36	98.53	177.2	201.6	8.73	9.46	162.25	154.36
June	92.71	96.47	175.8	198.4	9.02	9.59	158.07	149.85
July	92.43	95.51	171.2	193.6	9.38	9.53	154.62	147.14
August	92.00	93.27	169.3	195.2	9.53	9.68	151.72	146.06
September	91.66	94.42	167.6	188.4	9.51	9.72	148.85	140.39
October	90.43	94.81	166.8	183.5	9.63	9.51	150.25	139.76
November	86.55	95.16	165.5	180.9	9.69	9.60	149.53	136.49
December	86.92	94.71	164.5	181.2	9.83	9.43	148.86	139.18
January 1990	90.43	92.21	160.2	180.5	9.80	9.21	145.79	141.95
February	91.67	92.16	156.5	179.6	9.79	9.17	144.81	141.86
March	90.25	91.43	153.3	180.3	9.75	9.04	143.78	144.46

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FINANCIAL MARKETS

	Monetary Base		M1		M2		Federal Funds		T-Bills (6 Mos.)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1988	283.3	283.8	783.5	785.4	3037.5	3042.2	8.30	8.30	7.50	7.50
November	285.0	284.6	783.6	786.6	3054.0	3059.1	8.35	8.35	7.76	7.76
December	285.0	285.0	787.5	790.2	3066.2	3071.8	8.76	8.76	8.24	8.24
January 1989	288.6	288.0	789.3	786.3	3075.3	3069.0	9.02	9.12	8.38	8.36
February	291.3	287.4*	791.2	787.4	3084.7	3070.3	9.15	9.36	8.53	8.55
March	294.0	288.0	793.1	789.3*	3093.2	3079.8*	9.24	9.83*	8.62	8.86*
April	295.2	289.3	800.2	791.2	3120.6	3092.2	9.27	10.06	8.65	9.11
May	296.1	290.5	809.5	793.1	3143.2	3103.6	9.23	10.02	8.63	9.07
June	297.0	292.4	818.0	797.4	3166.5	3120.4	9.25	10.27	8.55	9.20
July	298.9	293.5	816.5	801.3	3180.2	3135.7	9.68	10.35	8.76	9.29
August	300.7	294.6	817.6	804.8	3193.1	3154.5	9.79	10.56	8.93	9.43
September	302.5	295.5	818.9	808.2	3207.3	3173.4	9.84	10.84	9.02	9.65
October	304.1	296.8	823.2	811.7	3223.5	3192.4	10.13	10.83	9.15	9.63
November	305.3	298.0	826.8	815.9	3246.1	3208.9	10.23	10.59	9.18	9.28
December	306.5	300.3	830.4	820.8	3269.0	3228.2	10.36	10.46	9.20	9.15
January 1990	308.5	301.6	836.3	823.7	3291.5	3244.3	10.35	10.45	9.17	9.07
February	310.3	303.2	842.8	826.8	3306.8	3260.5	10.38	10.29	9.15	8.93
March	312.1	305.1	848.9	830.9	3320.7	3276.7	10.34	10.27	9.12	8.95

	Aaa (Seasoned)		Municipals (Bond Buyer)		(3 Month) Commercial Paper		90 Day CD's		Prime Rate	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1988	9.51	9.51	7.47	7.47	8.24	8.24	8.36	8.36	10.00	10.00
November	9.45	9.45	7.46	7.46	8.66	8.66	8.78	8.78	10.05	10.05
December	9.57	9.57	7.61	7.61	9.11	9.11	9.25	9.25	10.50	10.50
January 1989	9.58	9.62	7.43	7.35	9.05	9.04	9.15	9.20	10.50	10.50
February	9.50	9.64	7.38	7.44	9.20	9.37	9.29	9.51	10.50	10.93
March	9.46	9.87*	7.35	7.69*	9.26	9.89*	9.35	10.13*	10.50	11.48*
April	9.40	10.02	7.31	7.83	9.38	10.13	9.43	10.32	10.50	11.76
May	9.47	10.20	7.40	7.94	9.35	10.08	9.45	10.30	10.50	12.00
June	9.54	10.36	7.52	8.02	9.40	10.29	9.49	10.46	10.50	12.00
July	9.83	10.30	7.73	7.93	9.65	10.36	9.76	10.51	11.00	12.00
August	9.92	10.45	7.80	8.11	9.76	10.45	9.84	10.60	11.00	12.13
September	10.01	10.52	7.88	8.21	9.86	10.76	9.93	10.89	11.39	12.50
October	10.20	10.32	7.96	8.07	10.15	10.70	10.24	10.84	11.58	12.50
November	10.36	10.39	8.11	8.14	10.24	10.52	10.35	10.65	12.00	12.50
December	10.25	10.22	8.20	8.03	10.35	10.37	10.46	10.49	12.00	12.50
January 1990	10.25	10.05	8.12	7.92	10.33	10.33	10.44	10.45	12.00	12.36
February	10.22	10.01	8.05	7.87	10.36	10.26	10.47	10.37	12.00	12.00
March	10.17	9.92	8.01	7.78	10.38	10.21	10.49	10.32	12.00	12.00

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